

**LODI CITY COUNCIL
SHIRTSLEEVE SESSION
CARNEGIE FORUM, 305 WEST PINE STREET
TUESDAY, DECEMBER 2, 2008**

A. Roll Call by City Clerk

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, December 2, 2008, commencing at 7:03 a.m.

Present: Mayor Pro Tempore Hansen, Council Member Hitchcock, Council Member Johnson, Council Member Katzakian, and Mayor Mounce

Absent: None

Also Present: City Manager King, City Attorney Schwabauer, and City Clerk Johl

B. Topic(s)

B-1 Water Infrastructure Replacement Program Update (PW)

City Manager King briefly introduced the subject matter of the status report for the water utility.

Public Works Director Wally Sandelin provided a PowerPoint presentation regarding the status of the water utility. He specifically discussed capital cash flow model for infrastructure replacement, water fund cash balances, annual water revenues, water operations overview, operating expenses, water fund operations summary, infrastructure replacement and utility capital, recommendations for the infrastructure replacement program, water meter program and background, meter funding alternatives, customers that have not yet paid, customers that have paid, justification for replacement program, meter program seven-year schedule, meter installation program accelerated, phase one and two of installation, water treatment plant costs, plant schedule and recommendation, seven-year capital cash flow model for infrastructure replacement, action items, wastewater utility overview, and wastewater recommendation.

In response to Council Member Hitchcock, Mr. Sandelin stated the \$2.7 million figure is reflected in the 185 PCE/TCE rates line item.

In response to Mayor Mounce, City Attorney Schwabauer stated line item 184 is restricted and cannot be used for anything else other than PCE/TCE settlements. Mr. Schwabauer stated the 185 line item can be used for PCE/TCE generally so long as this Council does not take specific action to spend the money in a certain way.

In response to Council Member Hitchcock, Mr. Schwabauer stated the 185 line item is not being used for operations; however, it is not bound for future Councils.

In response to Mayor Pro Tempore Hansen, Mr. Sandelin stated operations have been up and down over the last five years in comparison to the Consumer Price Index (CPI). Mr. Sandelin stated costs fluctuate in comparison with the CPI from year to year and that more specific information is provided in the model.

In response to Mayor Pro Tempore Hansen, Mr. Sandelin and Bob Reed of Robert Reed, Inc., serving as the City's water model consultant, stated that most agencies do not use the CPI because of fluctuation and infrastructure intensive costs tend to be higher than the CPI. Mr. Reed stated there is a nexus between generating revenue, covering costs, and having sufficient reserves. He stated most agencies will regularly review and adjust rates on a forward looking basis based on past history.

In response to Council Member Johnson, Mr. Reed stated there are a number of indexes other than CPI that can be considered; although, generally speaking operations are reviewed and adjusted regularly separate from the indexes.

In response to Council Member Hitchcock, Mr. King stated the reserve amount is a policy call and his experience has been a set amount for reserve infrastructure replacement based on policy with the operations side being adjusted as necessary. Mr. King stated from time to time there are wide fluctuations and some indexing is better than none accompanied by a true-up.

In response to Mayor Pro Tempore Hansen, Mr. King stated the cost of services payments to the general fund pays for direct costs that are spent on water utility and are supported by the cost study.

In response to Mayor Mounce, Mr. King confirmed that the principle goes to every department paying its fully loaded costs for all services.

In response to Council Member Hitchcock, Mr. King stated the cost study was completed last year and the data should be fairly accurate.

In response to Council Member Johnson, Mr. King stated that, while he is not sure of the exact amount of the cost study which was an outgrowth of Proposition 218 to justify costs, it was approximately \$20,000 to \$25,000.

In response to Council Member Hitchcock, Mr. Sandelin stated he is not sure how other communities are handling this challenge because Lodi is somewhat unique in this situation. Mayor Mounce stated some other cities are using the full allotted time period ending in 2025.

In response to Council Member Johnson, Mr. Sandelin confirmed that the 2025 date is for water meters and usage billing and the City has been working on water meter installations prior to the time that it was mandated. Mr. Sandelin stated the recommendation is to take some of the funding to address infrastructure, including replacement of smaller pipes, in the older parts of town.

In response to Mayor Pro Tempore Hansen, Mr. Sandelin confirmed that the program includes replacing the line in the street, replacing the individual parcel line, and then putting in the box for the meters.

In response to Council Member Johnson, Mr. Sandelin confirmed that the 2002 work included putting in the water main in the street and replacing the pipes.

In response to Mayor Mounce, Mr. Sandelin stated the water meter installation and pipe replacement is presented as separate for presentation purposes only and the process is done together.

In response to Council Member Johnson, Mr. Sandelin stated the primary reason for the delay in the program has been lack of funding to use on projects. Mr. Sandelin stated as of this year, the water fund is much healthier because of some of the PCE/TCE wrap up but the wastewater fund is not.

In response to Council Member Hitchcock, Mr. Sandelin indicated that there was discussion regarding everyone paying for their own meters; although, staff was instructed to bring back to Council options regarding the same with the full cost of the installations.

In response to Mayor Pro Tempore Hansen, Mr. Sandelin stated plumbing permits are necessary for the installations.

In response to Mayor Pro Tempore Hansen, Mr. Sandelin confirmed the approximate number of 1,500 customers for water meter installations.

Council Member Johnson requested that the City Council be provided copies of the maps in the presentation pertaining to the phases.

In response to Mayor Pro Tempore Hansen, Mr. Sandelin stated the reason for the delay goes back to the current staff's ability to handle about \$2 million worth of projects per year.

In response to Mayor Pro Tempore Hansen, Mr. Sandelin stated that if everything goes to schedule the City should be ahead of the mandated date for compliance for many of the residents.

In response to Council Member Johnson, Mr. Sandelin stated the three dollar figure he was referring to was for the diversion for infrastructure replacement, which is already being paid. Mr. Sandelin stated no one would be charged an up front amount for water meters under the proposed recommendation.

In response to Council Member Katzakian, Mr. Sandelin stated staff is not recommending the installation in the back of the houses to be moved up front at a later time.

A brief discussion ensued between Council Member Hitchcock, Mr. King, and Mr. Sandelin regarding equity considerations for those who may have already paid for water meters or bought a newer house with the meters already installed in comparison to those who have not yet paid.

In response to Council Member Hitchcock, Mr. King stated that, while it will be difficult to operate two rate structures for a limited period of time, the goal is to get everyone on the same structure as soon as possible.

In response to Mayor Pro Tempore Hansen, Mr. Reed stated he has not heard any rumblings of the mandated date being accelerated at this point. Mr. Reed stated the mandate itself comes from the State and federal government and cities have different charges based on ability.

In response to Council Member Hitchcock, Mr. Schwabauer stated a rate assessment for water meters may have to go through the Proposition 218 process as he cannot see any way that any rate increase could be implemented otherwise.

In response to Council Member Katzakian, Mr. Schwabauer stated new construction is covered by the development agreements and are a part of the purchase as are sewer lines.

In response to Council Member Hitchcock, Mr. Sandelin stated he does not believe there is a separate \$380 fee assessed on new homes because they are covered by development agreements and he will verify the same.

In response to Council Member Hitchcock, Mr. Sandelin stated he anticipates the matter will come before Council on January 7 with a public hearing in February.

In response to Council Member Johnson, Mr. Sandelin stated he will be bringing the matter of Woodbridge Irrigation District sale of water to Council in closed session possibly on December 17.

Council Members Johnson and Hitchcock requested minutes and ordinances pertaining to the subject matter of water, wastewater and water meter installations.

C. Comments by Public on Non-Agenda Items

None.

D. Adjournment

No action was taken by the City Council. The meeting was adjourned at 8:27 a.m.

ATTEST:

Randi Johl
City Clerk



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CITY OF LODI COUNCIL COMMUNICATION

AGENDA TITLE: Water Infrastructure Replacement Program Update

MEETING DATE: December 2, 2008 (Shirtsleeve Session)

PREPARED BY: Public Works Director

RECOMMENDED ACTION: Information only.

BACKGROUND INFORMATION: Staff will present information on the Water Infrastructure Replacement Program.

FISCAL IMPACT: Not applicable.

FUNDING AVAILABLE: Not applicable.

A handwritten signature in cursive script, reading "F. Wally Sandelin", written over a horizontal line.

F. Wally Sandelin
Public Works Director

FWS/pmf

APPROVED:

A handwritten signature in cursive script, reading "Blair King", written over a horizontal line.

Blair King, City Manager

Status Report

Water Utility

Shirtsleeve

December 2, 2008

Agenda

- Water Operations
- Water Utility Projects
 1. Infrastructure Replacement Program
 2. Water Meter Program
 3. Water Treatment Plant
- Schedules
- Costs

7-Year Capital Cash Flow Model For Infrastructure Replacement

Fiscal Year	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16
Beginning Balance (\$million)	\$10.06	\$6.26	\$5.66	\$5.06	\$6.86	\$5.06	\$5.26	\$3.46
<u>Capital Revenue</u>								
Rate Revenue (181)	\$2.20	\$2.20	\$2.20	\$2.20	\$2.20	\$2.20	\$2.20	\$2.20
Water Sale Revenue		\$1.20	\$1.20	\$1.20				
Water Plant Financing				\$0.40				
Total	\$12.26	\$9.66	\$9.06	\$8.86	\$9.06	\$7.26	\$7.46	\$5.66
<u>Expenditures</u>								
Infrastructure Replacement	\$2.00		\$2.00		\$2.00		\$2.00	
Water Meter Installation	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00
<u>Water Treatment Plant</u>								
Design Contract	\$1.00	\$2.00						
Raw Water Pipeline	\$1.00							
Ending Balance	\$6.26	\$5.66	\$5.06	\$6.86	\$5.06	\$5.26	\$3.46	\$3.66

Water Fund

Cash Balances

(Ending June 30, 2008)

	FY 07/08 Actual	Transfers Reimbursing Past Litigation Expense	Adjusted Totals
Operations (180)	\$7,260,422	(\$6,300,000)	\$960,422
PCE/TCE Litigation (180)	(\$14,728,464)	\$13,000,000	(\$1,728,464)
Infrastructure Replacement / Utility Capital (181)	\$10,026,744		\$10,026,744
Impact Mitigation Fees (182)	\$1,259,057		\$1,259,057
PCE/TCE Settlements (184)	\$14,153,129	(\$1,700,000)	\$12,453,129
PCE/TCE Rates (185)	\$5,045,569	(\$5,000,000)	\$45,569
Total	\$23,016,457	\$0	\$23,016,457

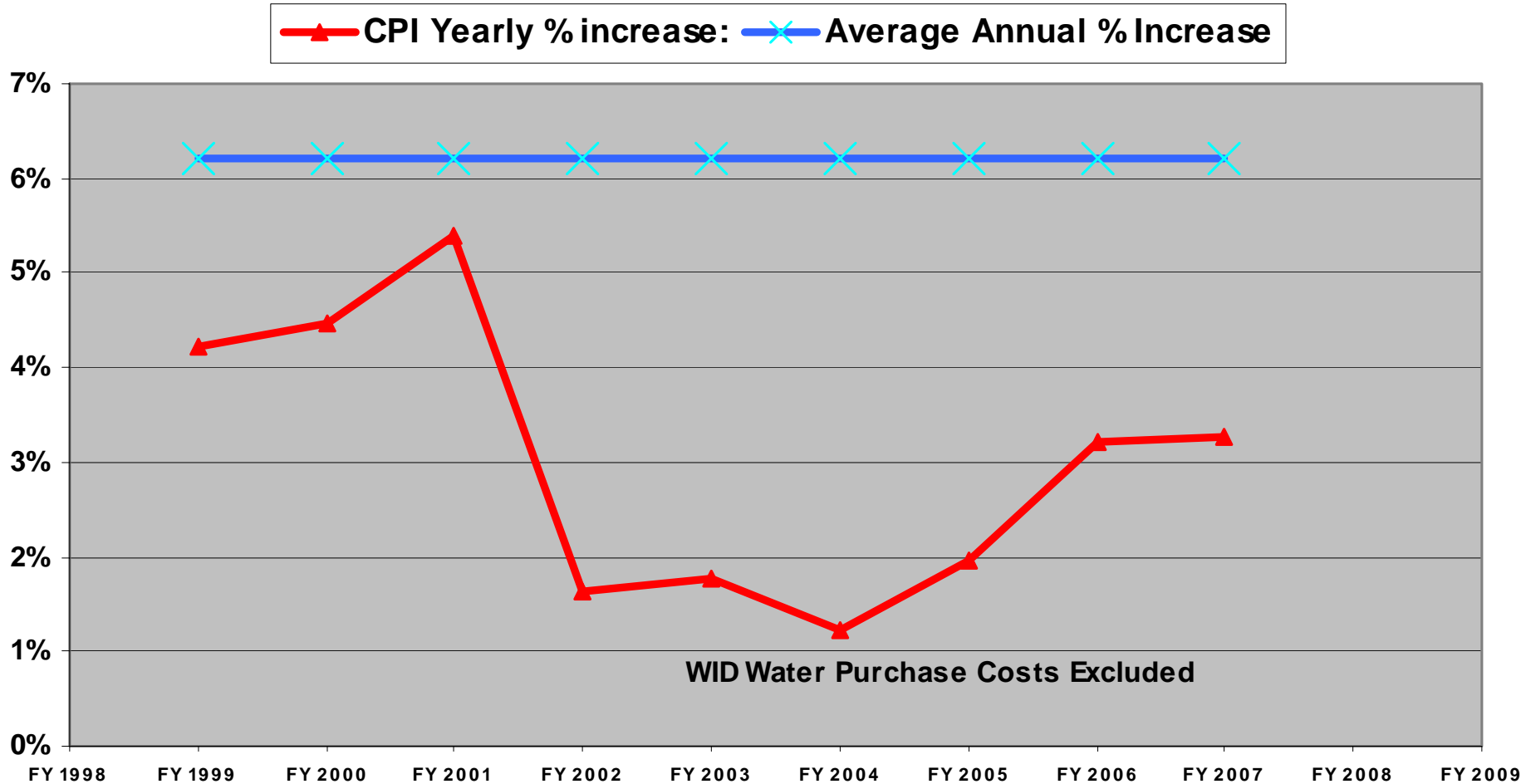
Annual Water Revenues

Infrastructure Replacement	\$2.2 million
PCE/TCE Cleanup	\$2.7 million
Operations	<u>\$7.4 million</u>
Total	\$12.3 million

Water Operations Overview (180)

- Slight Operating Fund Reserve of \$960,422
- Annual percentage cost increase exceeds CPI percentage adjustment (6% versus 3.5%)
- Increase in undesignated reserves by \$2.1 million at end of FY 2007/08

Water - Operating Expenses



Water Fund Operations Summary Operations

(Ending June 30, 2008)

	FY 07/08 Actual
Revenue	
Sales	6,349,290
Other (interest, rent, misc.)	1,075,496
Total Operating Revenues	7,424,786
Expenses	
Operating	4,201,707
Debt Service	62,676
Cost of Services Payments To General Fund	1,036,399
Total Operating Expenses	5,300,782
Net Increase in Undesignated Reserves	2,124,004

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Infrastructure Replacement/Utility Capital (181)

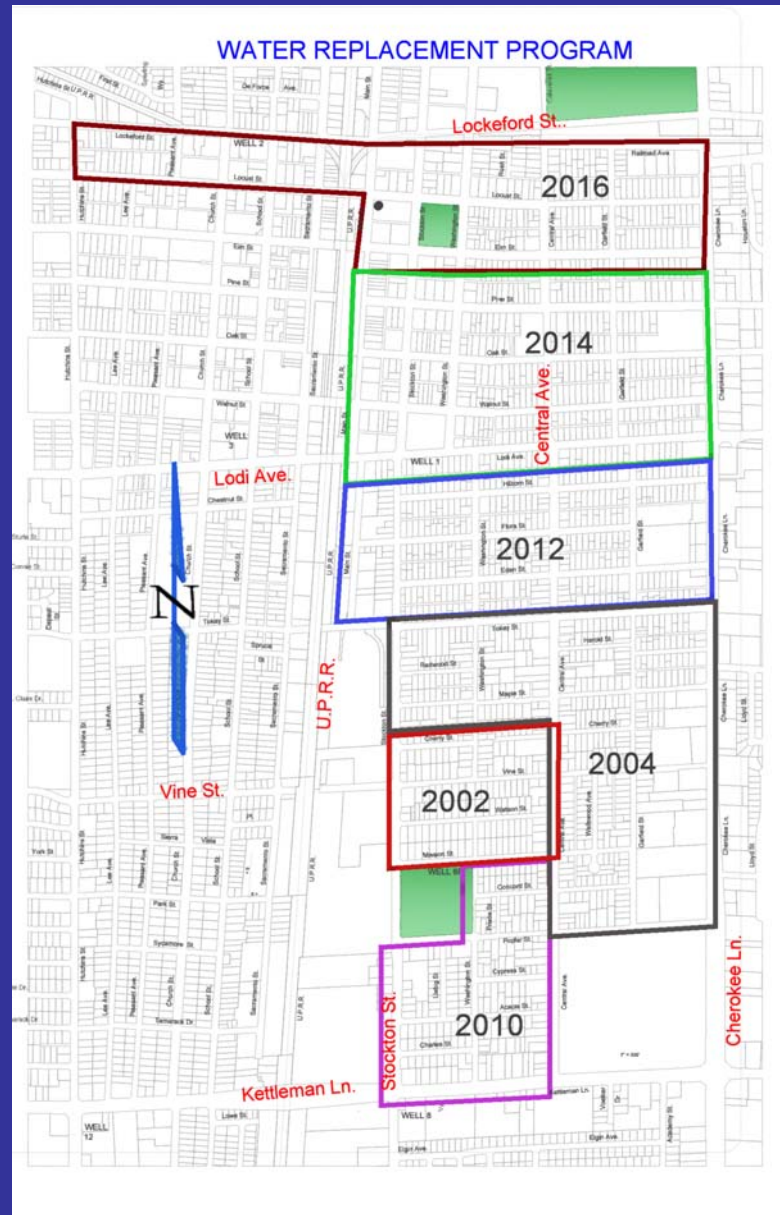
July 1, 2002 – Sept. 30, 2008

Water Infrastructure Revenue	\$12.71 million
Water Revenue	\$ 4.14 million
Water Capital Expenditure	\$ (3.41 million)
Water Infrastructure Replacement	<u>\$ (2.84 million)</u>
Water Capital Fund Balance (as of 9/30/08)	\$10.60 million

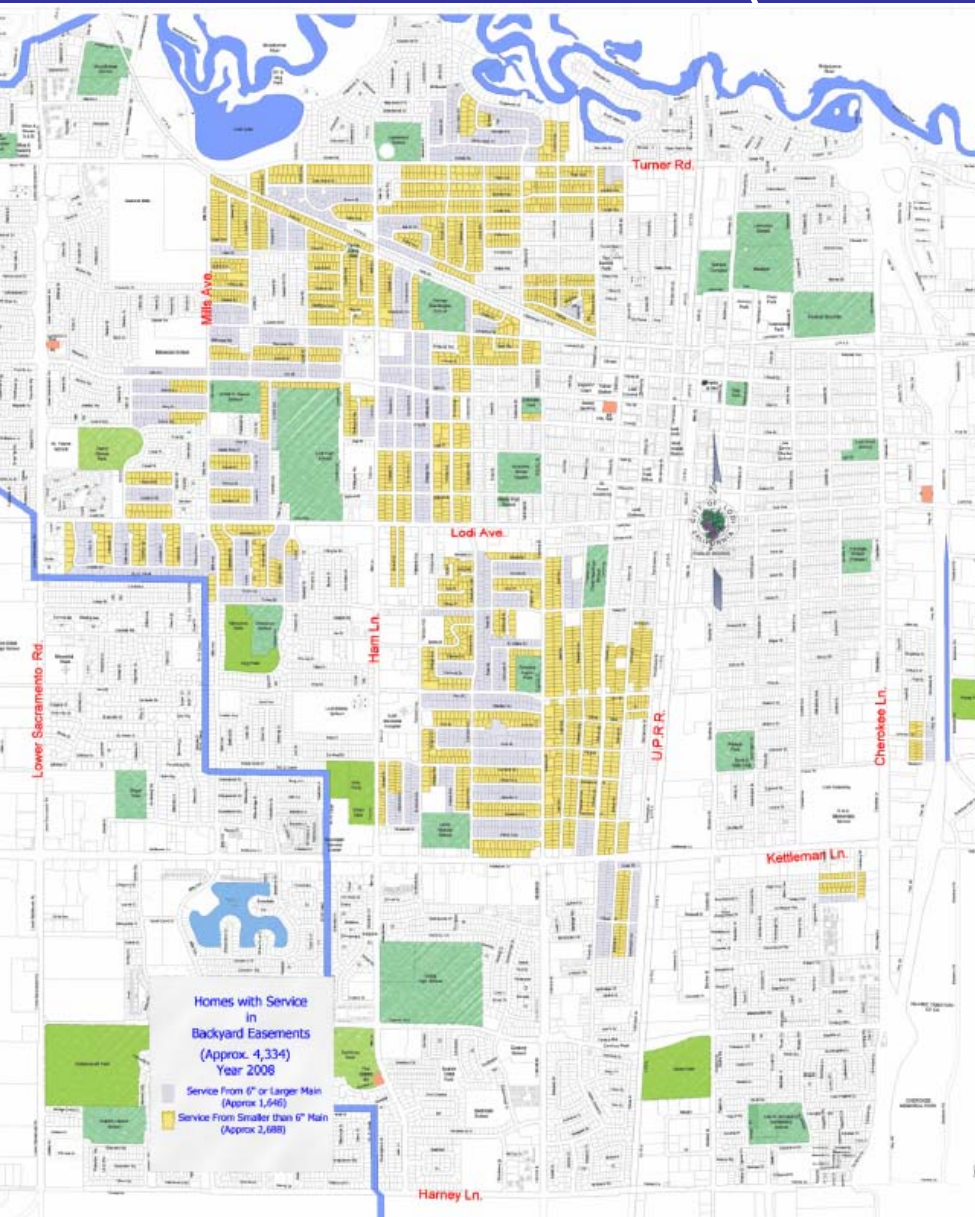
Recommendation

- Annual revenue is \$2.2 million
- Designate \$1.0 million per year for infrastructure replacement project and construct a \$2 million project every other year
- Designate the remainder of \$1.2 million per year for meter installation, a form of infrastructure replacement

Infrastructure Replacement Program (2016)



Infrastructure Replacement Program (Post 2016)



4,334 Parcels

All Backyard services

6 inch and smaller
mains

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Water Meter Background

- Payment for meters began 1992 with service boxes installed but no meters
- New State law requires commodity-based billing for all paid meters to begin Jan. 1, 2011

Meter Funding Alternatives

- Spread the cost for meter installation across the entire rate base
- Charge the full cost to customers that have not paid for a new service box and meter (\$18 million @ \$1,300 each)
- Charge only the cost of the meter and installation to customers that have not paid for a new service box and meter (\$3 million @ \$200 each)

Customers That Have Not Paid (Equity Complexities)

- Would they reimburse the City for service boxes already installed by the City?
- Would they pay the average cost or the site-specific cost?
- Strongly recommended to not allow customers to install their own service box and meter

Customers That Have Paid

(Equity Complexities)

- Does the City reimburse each customer the cost of the service box and/or the meter?
- Does the City reimburse the customer that paid or the current owner?
- What is the basis of reimbursement (actual cost or city-wide average)?

Recommendation

- Complete \$2.0 million infrastructure replacement project every other year ongoing
- Spread the cost for meter installation across the entire rate base and use the Infrastructure Replacement Funds to install meters
- Complete \$2.0 million water meter installation project every year for 7 years

Justification

- Installation of upgraded water services is a qualified Replacement Program activity
- Cost per 3 bedroom single family home is \$3.77 per month (current charge)
- State mandate is a system-wide requirement and the cost should be borne system-wide
- Avoids equity complexities
- Approach common to other cities

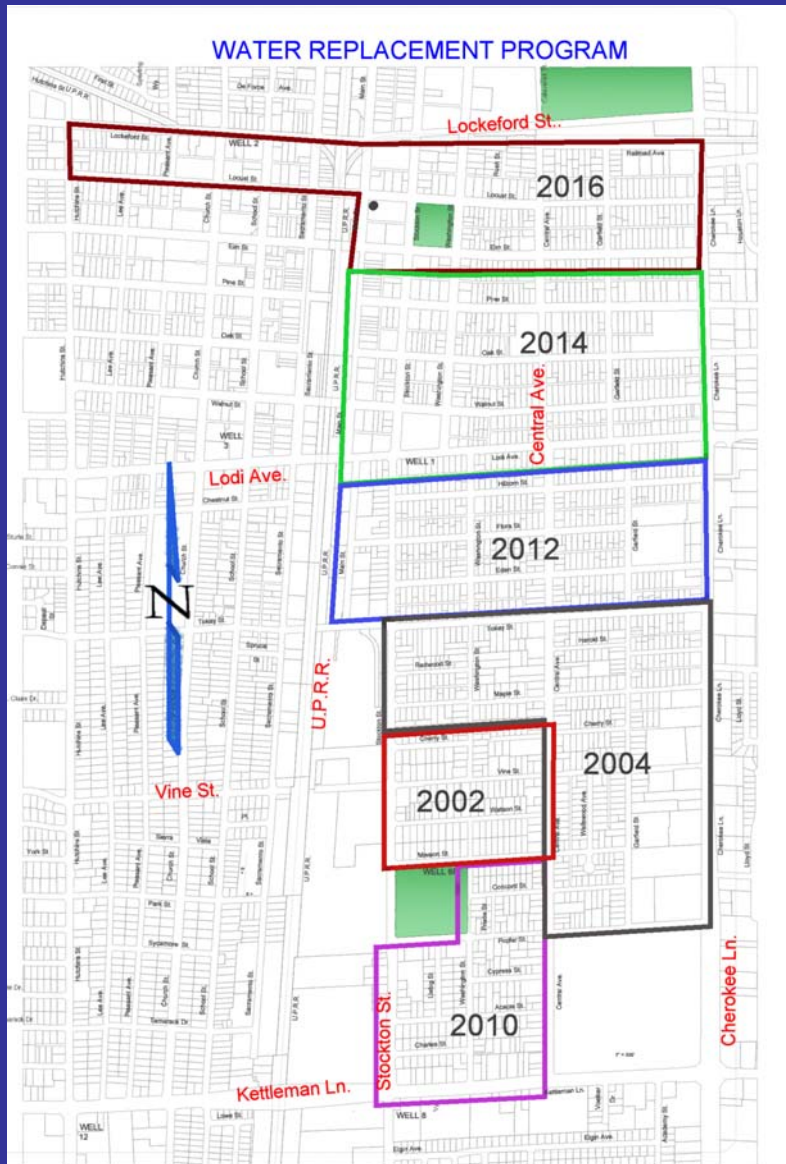
Meter Program 7-Year Schedule

- September 2009 – Adopt Tiered Rate
- Year 2010 – Provide Comparative Billing
- January 2011 – Usage-based billing begins for approximately 3,000 customers
- January 2016 – Usage-based billing for approximately 14,000 customers

Meter Installation Program 7-Year Accelerated (2016)

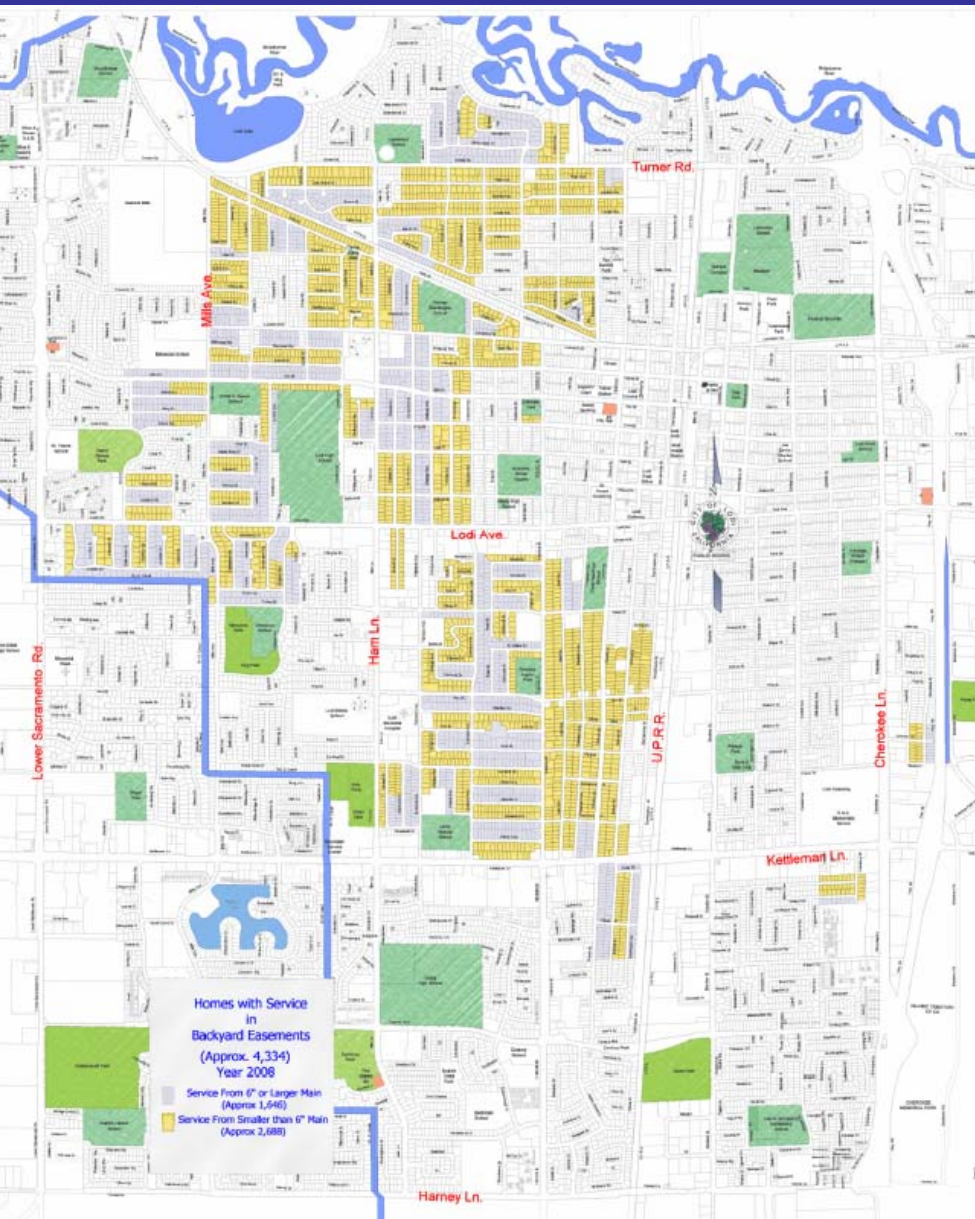
Total Single Family Meters	17,232
Infrastructure Replacement	1,667
Pre-Paid Meter Installations Completed	2,876
Accelerated Front Yard Program (5 years)	8,355
Accelerated Water Replacement (2 years)	<u>1,400</u>
Subtotal	14,298
Meter Installations (Post 2016) 17%	<u>2,934</u>
Total	17,232

Phase 1 Meter Installation/Replacement



1,667 meters by 2016

Phase 2 Meter Installation/Replacement



1,400 meters by 2016

2,934 after 2016 (17%)

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Water Treatment Plant Costs

- Design \$3 million
- Raw Water Supply Pipe \$1 million
- Start Up Funds \$4 million
- Construction Cost \$37 million
- Annual Operations Cost \$1.5 million

Water Treatment Plant Schedule

- Feasibility Report July 2008
- Design Contract Dec. 2008
- Finance Plan April 2009
- Raw Water Supply Pipe April 2009
- Start Construction 2nd Qtr. 2010
- Start Operations 3rd Qtr. 2011

Recommendation

- Complete \$2.0 million infrastructure replacement project every other year ongoing
- Spread the cost for meter installation across the entire rate base and use the Infrastructure Replacement Funds to install meters
- Complete \$2.0 million water meter installation project each year for 7 years
- Authorize 3-year sale of WID water to fund Water Treatment Plant design and raw water supply pipeline construction

7-Year Capital Cash Flow Model For Infrastructure Replacement

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<u>Water Treatment Plant</u>								
Design Contract	\$1.00	\$2.00						
Raw Water Pipeline	\$1.00							
Ending Balance	\$6.26	\$5.66	\$5.06	\$6.86	\$5.06	\$5.26	\$3.46	\$3.66

Action Items

- | | |
|-------------------------------|--|
| 1. Infrastructure Replacement | \$2.0 million <u>every other year</u> |
| 2. Meter installation | \$2.0 million <u>every year</u>
Infrastructure Replacement Fund |
| 3. Water Treatment Plant | WID Water Sale to Fund Design
and Raw Water Pipeline |
| 4. Water Rate Model | Validate Recommended Actions |

Wastewater Utility Overview

- Annual Operations Deficit of \$1 million
- New development unable to meet near term debt service obligations
- Operations and Capital Funds deficit of \$11 million
- Infrastructure Replacement Fund surplus of \$15 million

Wastewater Recommendation

- Fund Infrastructure Replacement program at \$1.5 million/year
- Construct a \$2.0 million large project every other year and various smaller projects
- Assign \$1.0 million in revenue from Infrastructure Replacement to Operating Fund
- Implement Debt Service Correction from Impact Mitigation Fees
- Assign Infrastructure Replacement funds as follows:

1.	Fund Balance	\$14,466,841	as of June 30, 2008
2.	Transfer to Capital Reserve	\$ 3,955,688	Clears Pre-2004 debt service
3.	Reserve for Debt Service	\$ 3,000,000	Building slowdown
4.	Transfer to Operating	<u>\$ 7,000,000</u>	Sewer Trunk Lining Rebate
5.	Balance	\$ 511,530	
- Evaluate Rate Adjustments required to cover increased operating costs and to establish reserves

Questions

- Recommendations for the next 5 – 7 years?
- Schedule?
- Costs?
- Projected Revenues?